Message Text

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USOECD ALSO FOR EMBASSY

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E.O.: 11652: N/A
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SUBJ: DANISH ECONOMY: SOBER PROSPECTS

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1. WITHOUT LETTING WORK INTERFERE UNDULY WITH VACATIONS, DANISH POLITICAL PARTIES ARE SLOWLY GIRDING UP FOR A SKIRMISH OVER THE DANISH ECONOMY. THE ACTION WILL TAKE PLACE IN A SPECIAL SESSION OF PARLIAMENT IN AUGUST (SEE REFTEL). REASONS FOR POLITICAL CONCERN CAN BE SEEN IN DENMARK'S RECENT AND PROJECTED ECONOMIC PERFORMANCE.

2. THE MAIN ECONOMIC FACT OF DANISH LIFE IS THE NOW WIDELY HELD CONVICTION THAT AN INTERNATIONAL UPTURN CANNOT BE RELIED UPON IN THE FORESEEABLE FUTURE TO SOLVE DENMARK'S PROBLEMS. LOOKING NO FURTHER THAN THEIR CLOSEST NEIGHBORS, THE DANES FIND EVIDENCE FOR THIS CONVICTION IN THE RESTRAINT THAT GERMANY, THE U.K., AND SWEDEN, FOR DIFFERING REASONS, ARE EXERCISING IN THEIR COUNTRIES. FORCED TO FEND FOR THEMSELVES IN THIS UNPROMISING INTERNATIONAL ENVIRONMENT, THE DANES FIND THAT THEIR CAPABILITIES FOR DOING SO ARE LIMITED.

3. DENMARK'S ECONOMIC POLICY MAKERS ARE TO A LARGE EXTENT PRISONERS OF THE BALANCE OF PAYMENTS. WHILE THEY WOULD PREFER TO ADOPT MEASURES THAT WOULD ALLEVIATE EXTENSIVE AND SLOWLY RISING UNEMPLOYMENT, A LARGE AND PERSISTENT BALANCE OF PAYMENTS DEFICIT CONSTRAINS THEM. STILL FRESH IS THE 1975-76 EXPERIMENT WITH LOWER CONSUMPTION TAXES THAT STIMULATED IMPORTS AND SWELLED THE BALANCE OF PAYMENTS DEFICIT WITHOUT REDUCING EXISTING UNEMPLOYMENT. THE GAME PLAN HAS THUS TURNED TOWARD IMPORT RESTRAINT AND EXPORT EXPANSION, PARTICULARLY THE LATTER. THE GOVERNMENT'S MAJOR EFFORT IN THIS DIRECTION THUS FAR WAS THE ADOPTION OF AN INCOMES POLICY DESIGNATED TO KEEP WAGE COSTS DOWN AND THUS ENHANCE DANISH EXPORT COMPETITIVENESS.

4. HOW EFFECTIVE THE GOVERNMENT'S INCOMES POLICY WILL BE IS STILL A GUESS. MAJOR UNKNOWN FACTORS INCLUDE THE EFFECTIVENESS OF DANISH COMPETITORS IN KEEPING THEIR COSTS DOWN, THE

EXTENT TO WHICH THE DANISH RESTRAINT OF WAGES WILL BE EFFECTIVE (FEW EXPECT THAT THE 6 PERCENT ANNUAL WAGE GROWTH LIMIT WILL WORK), AND HOW PRICE SENSITIVE DANISH EXPORTS IN FACT ARE.

5. WHEN PARLIAMENT CONVENES IN SPECIAL SESSION IN AUGUST, IT WILL LOOK UPON AN ECONOMY WHOSE 1977 BEHAVIOR IN MAJOR AREAS CAN BE CHARACTERIZED IN MUCH THE FOLLOWING TERMS:

A. EXTERNAL SECTOR - A MODERATE BUT FRAGILE IMPROVEMENT IN EXPORTS - PERHAPS AS MUCH AS 7 PERCENT - AND STAGNATING IMPORTS COULD PRODUCE SOME IMPROVEMENT IN THE 1977 TRADE AND PAYMENTS BALANCES AND PROVIDE SOME STIMULUS TO PRODUCTION GROWTH.

B. CONSUMER DEMAND - WITH CONSUMER SPENDING FLAT, SLIGHT DOWNWARD TREND IN REAL EARNINGS, AND THE THREAT OF NEW CONSUMPTION TAXES, AGGREGATE DOMESTIC DEMAND IS NOT LIKELY TO GROW AT ALL.

C. PUBLIC SECTOR - DESPITE A LARGE FISCAL DEFICIT, THIS SECTOR IS LESS EXPANSIVE IN 1977 THAN IN 1976.

D. INVESTMENT - RESIDENTIAL CONSTRUCTION, AFTER A SHARP INCREASE IN 1976, IS DECLINING RAPIDLY, THOUGH SOMEWHAT LESS THAN ORIGINALLY FEARED. BUSINESS INVESTMENT IS RISING VERY LITTLE, AND THAT LITTLE IS FOUND MOSTLY IN CONSTRUCTION. AN INVENTORY BUILD-UP, WHICH STIMULATED DEMAND IN 1976, WILL NOT CONTRIBUTE ANY IMPETUS IN 1977.

E. FOREIGN EXCHANGE - BECAUSE OF HEAVY BORROWING FROM ABROAD (TWO-THIRDS OF IT PUBLIC), DANISH RESERVES STAND AT A REASONABLY HEALTHY TWO BILLION DOLLARS. CAPITAL IMPORTS, OVER AND ABOVE ACUTE REQUIREMENTS, HAVE MADE IT FAIRLY EASY FOR THE KRONE TO KEEP A COMFORTABLE POSITION IN RELATION TO OTHER SNAKE CURRENCIES. A MAJOR DEVALUATION, WHICH WOULD JEOPARDIZE RECENT GAINS IN MODER-ATING INFLATION AND PROVIDE ONLY LIMITED AND SHORT-LIVED BENE-FITS, IS NOT LIKELY.

6. THE FOREGOING SOBER PICTURE OF THE DANISH ECONOMY DOES NOT SIGNIFY EQUALLY SOBER PROSPECTS FOR U.S. EXPORTS TO DENMARK. GEN-ERALLY SPEAKING, THE MARKET FOR AMERICAN GOODS IS STABLE. BECAUSE THE SLACK IN DANISH IMPORTS IS OCCURRING IN AREAS WHERE U.S. SALES ARE COMPARATIVELY SMALL, THE OVERALL U.S. SHARE OF THE DAN-

ISH MARKET IN 1977 IS LIKELY TO INCREASE.

7. COMMENT: THE ABOVE MATERIAL IS BASED ON THE EMBASSY'S SEMI-ANNUAL TRENDS REPORT, SUBMITTED SEPARATELY AS AN AIRGRAM. DEAN

NNN

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

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